

MARKET UPDATE NEWSLETTER

Insert HEADLINE Here

If you were looking for an exciting headline this past month, you sure didn't need to look far. The month of April brought us plenty of action in the stock markets of the world—from the streets of Athens, to the crust of the earth in Iceland, through the skies above Europe, to the depths of the Gulf of Mexico, and back to Capitol Hill, just to name a few. When the dust finally settled, the S&P 500 advanced 1.48% which left the stock index with a gain of 6.42% for the year. The monthly gains also put the DOW above 11,000 for the first time since the bankruptcy of Lehman Brothers, which was one of the most notable events of the market crash during the fall of 2008.

Market gains aside, the economy continued to show signs of improvement. Consumer spending has been increasing and home sales increased substantially. New home sales jumped nearly 27%, but be warned that most of that jump is attributed to the new home buyer credit that expired at the end of April. The economy posted the first significant month of job gains, and consequently the unemployment rate has stabilized. While the US economy is on the mend, all focus is abroad. Despite an announced bailout agreement for Greece with the European Union and the International Monetary Fund, April left everyone on high alert, wondering to what degree this crisis could spread to other European countries and even to the US.



Investment Outlook Summary

Asset Class	Outlook	Commentary
Cash / Stable Value	<ul style="list-style-type: none"> Still maintaining higher levels of cash 	Higher levels of cash help protect your portfolio in sharp downturns, provide capital to buy when opportunities present themselves, and have not shown to significantly hurt performance as the market has rebounded.
Bonds / Fixed Income	<ul style="list-style-type: none"> Reduced levels of exposure Cautious of Treasuries for the long-run Positive on Treasury Inflation-Protected Securities (TIPS) Positive on convertible bonds Positive on floating rate bonds <i>Positive on emerging market bonds</i> 	<p>As the financial crisis has healed, corporate bonds have performed well and are at levels consistent with past recessions.</p> <p>Primarily used for safety, but with yields at historic lows and the risks of future inflation present, treasury owners may not be paid adequately for the potential risk.</p> <p>Essentially, these are treasury notes with an interest rate tied to inflation. Used for safety, but the future interest paid will increase with inflation.</p> <p>Currently presents a favorable risk/reward profile: deeply discounted in price and a good yield. The potential of stock-like upside with bond-like downside. Riskier than traditional bonds.</p> <p>A rising interest rate environment is positive for floating rate investments. While rates are currently not rising, we expect them to in the future.</p> <p><i>Ten years ago less than 3% of emerging markets bonds were investment grade, now more than 50% are. As this asset class develops, there will be great potential for investors over the coming years. We will be looking to add these over time.</i></p>
Stocks	<ul style="list-style-type: none"> Still cautious of stocks—below normal levels of exposure Positive on dividend paying stocks Utilizing covered call strategies to hedge Selective of international stocks Positive on Brazil, Canada and Australia Avoid much of Europe, the U.K., and Japan 	<p>The stock markets had a banner recovery last year. Many economists feel that unemployment may stay high through this year, making further recovery slower than most would hope.</p> <p>Many of the traditional dividend paying companies are more attractively valued than the general stock market.</p> <p>Call premiums providing that extra income are back down to normal historical levels. Still a utilized strategy, but much less so.</p> <p>International diversification is still very important to your portfolio, however individual country selection will likely play an increasing role in international stock performance.</p> <p>Brazil, Canada and Australia are raw material exporting countries that are/will be very important to building China's infrastructure.</p> <p>Our sources have warned about Europe for almost a year, it is now front page news. Current solutions appear to be a band-aid to a much larger problem inherent in a shared currency.</p>
Alternate	<ul style="list-style-type: none"> Positive on Gold and Silver Negative on the Euro Positive on energy trusts 	<p>Primarily used as an inflation hedge, but also a currency hedge. The risks of global currency dilution are present.</p> <p>We have a negative outlook on the Euro vs. most dollar currencies such as the U.S., Canadian, and Australian dollars.</p> <p>Some energy trusts provide a good dividend source with the potential for capital gains.</p>

Italics denote a change from last month

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Financial Math: How 50 - 50 = -25...

How is it that +50 and -50 = -25 you ask? Easy, it is what we refer to as — “Financial Math.” Getting a handle on this Financial Math is a key step in understanding investment performance and how to achieve long term gains. To keep things simple, picture a \$100 investment that goes up by 50% one year, and then down by 50% the next, what is your net return? The quick answer is usually that you breakeven, but when one does the financial math...

50% return on original \$100 = \$50

You now have your original \$100 plus a \$50 gain = \$150

50% loss on the new \$150 = -\$75

You now have your \$150 minus the \$75 loss = \$75

Your ending value is \$75, or a (25%) loss on your initial investment

The math above is simple, and it can become eye-opening. Let's look at the real life example of the Dow Jones Industrial Average from its peak in April 2007 to the trough level in March of 2009.

Dow high point in April 2007: 14,164

Dow low point in March 2009: 6,547

peak to trough drop of (53.7%)

from lows of 6,547 in March of 2009...

until the end of 2009 at 10,428

the Dow gained 59.3%

Yet the Dow is still 26% below the 14,164 highs!

The reason: Financial Math

Even though the percentage gain was higher than the percentage loss, the Dow is still well below the original levels. It would have taken a 116% return to get from the lows of 6,547 back to the highs of 14,164.

Also of note, the order of gains and losses does not matter in the calculation. In the first example, we looked at a gain first and a loss second, but the results would be the same if the loss were to occur first. However, in the real world, investors are usually contributing to their investments, and in such a case the results are better if the loss occurs first.

A key takeaway should be that the effect of this Financial Math becomes much more material the greater the losses are. The included chart shows how smaller losses need slightly larger gains to break even, but as the losses grow larger, increasingly larger gains are required to break even. This knowledge comes in handy when analyzing investments, as large losses can be very hard to recover from. Managing your investments to minimize loss may be the key to your portfolio success. The downside hurts more than the upside helps.

Financial Math might not be able to send a spaceship to the moon, but it can certainly help protect your portfolio!

% Loss	% Gain needed to break even
-10%	11%
-15%	18%
-20%	25%
-35%	54%
-40%	67%
-50%	100%
-60%	150%
-70%	233%
-80%	400%
-90%	900%